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No. _____

IN THE

Supreme Court of the United States

OCTOBER TERM, 1992

THE LUBRIZOL CORPORATION,

Petitioner,

v.

EXXON CORPORATION, *et al.*,

Respondents.

Petition for a Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTION PRESENTED

Following this Court's decision in *Salve Regina College v. Russell*, 111 S. Ct. 1217 (1991), holding that federal appellate courts should not defer on appellate review to district court determinations of state law, is it nonetheless proper for such a court to defer to another federal appellate court's determination of such an issue?

PARTIES TO THE PROCEEDINGS

The parties to the proceedings below were the petitioner, The Lubrizol Corporation, and the respondents, Exxon Corporation, Charles R. Evans, Richard D. Lower and Gates Data Center.

Pursuant to Supreme Court Rule 29.1, the following list identifies all subsidiaries (other than wholly owned subsidiaries) and affiliates of petitioner, The Lubrizol Corporation: Agrigenetics Research Corporation, Zikonix Corporation, Agrigenetics S.A., C.A. Lubricantes Quimicos L.Q., Ganga Agri Seeds Ltd., Industrias Lubrizol S.A., Lubrizol France S.A., Lubrizol India Limited, Lubrizol Transarabian Company Limited, Solub Product Application Laboratory, Genetech Inc., Mycogen Corporation, Altus Corporation, Catalytica Inc., ChemGen Corporation, Creative BioMolecules Inc., Ocean Genetics, GLC Associates, Intera Company Ltd. and SAS Systems Inc. Petitioner has no parent corporation.

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SUPREME COURT OF THE UNITED STATES

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No. ___

THE LUBRIZOL CORPORATION,

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v.

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Petition for a Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit

---

PETITION FOR A WRIT OF CERTIORARI

The Lubrizol Corporation ("Lubrizol") petitions for a writ of certiorari to review the judgment of the United States Court of Appeals for the Fifth Circuit.

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 957 F.2d 1302 (5th Cir. 1992). It is reprinted at pages 3a-19a

of the appendix to this petition. The relevant decisions of the district court are unreported and are reprinted at pages 20a-49a of the appendix to the petition.

JURISDICTION

The judgment of the Court of Appeals was entered on April 15, 1992. A timely petition for rehearing with a suggestion for rehearing en banc was denied on May 29, 1992. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

STATEMENT

In the aftermath of this Court's decision in *Salve Regina College v. Russell*, 111 S. Ct. 1217, 1221-23 (1991), which mandates *de novo* appellate review of district court determinations of state law, a split persists among the circuits on whether *de novo* review is also required where an issue of state law has been decided by a federal appellate court for the circuit that includes the state whose law is in issue. In this case, the Court of Appeals for the Fifth Circuit has deferred, without any analysis of state-law decisions, to a single, 26-year-old decision of the Second Circuit stating its view on a governing issue of New York law. Because that decision is contrary to the spirit of *Salve Regina*, and because a split presently exists among the circuits on the issue of whether deference is appropriate in such circumstances, review by this Court is appropriate.

1. In 1985, Lubrizol brought this action in the U.S. District Court for the Southern District of Texas against

Exxon Corporation ("Exxon") and others, alleging that they had committed fraud in the mishandling of confidential Lubrizol information. In turn, Exxon asserted a counterclaim against Lubrizol for breach of a covenant not to sue, which was contained in a settlement agreement between the parties terminating earlier New Jersey litigation. The district court granted summary judgment to Exxon on Lubrizol's claims, which the court held to be barred under the settlement agreement or principles of res judicata. The Fifth Circuit affirmed with respect to Exxon and two of the three other defendants, remanding the case to the district court for consideration of Exxon's counterclaim. *Lubrizol Corp. v. Exxon Corp.*, 871 F.2d 1279 (5th Cir. 1989).

2. On remand, the district court ruled in Exxon's favor on its counterclaim for breach of the covenant not to sue. (App. 28a) It was undisputed that the question whether Exxon could recover attorneys' fees as damages for such a breach was governed by New York law. However, rather than applying the relevant decisions of the New York Court of Appeals, the district court relied on *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002 (2d Cir. 1966), a case dealing with the damages available under federal law for breach of a covenant not to sue for infringement of a U.S. patent. In *Artvale*, the Second Circuit held that a litigant may recover attorneys' fees for breach of a covenant not to sue -- even if the covenant itself is silent on the subject -- if the suit was "brought in obvious breach or otherwise in bad faith." *Id.* at 1008. The Second Circuit reached that conclusion after determining that, while the appropriate legal standard for awarding fees was a question of federal law, it was significant in reaching that determination that the court found "nothing in New York law that would lead us to a

decision different from what we would independently reach." *Id.* at 1007-08. In contrast, the New York Court of Appeals has held that attorneys' fees may be recovered as damages only if expressly authorized by contract, statute or court rule.[1]

Applying *Artvale*, the district court held that "Lubrizol's breach of the covenant not to sue was an obvious one," and that Exxon was therefore entitled to recover attorneys' fees as damages for that breach. (App. 28a) The court could not have reached such a result under a proper analysis of New York law, since no provision for attorneys' fees was made in the parties' settlement agreement or in any applicable statute or court rule. However, the court perceived its inquiry to be whether "the second circuit would hold that New York law provides that attorneys' fees are recoverable for breach of a covenant not to sue," not how that question would be decided by the New York courts themselves based on existing New York law precedents. (App. 46a) The court ultimately allowed Exxon to recover as damages the more than $2.4 million in attorneys' fees that it claimed to have incurred in this litigation. (App. 23a)

3. The Court of Appeals for the Fifth Circuit affirmed. (App. 18a) The Fifth Circuit noted in passing Lubrizol's argument that "according to New York law, attorney's fees may be awarded as damages for a breach of contract only if the contract expressly and unmistakably

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[1] *See, e.g., Hooper Assoc., Ltd. v. AGS Computers, Inc.*, 548 N.E.2d 903, 904 (N.Y. 1989); *A.G. Ship Maintenance Corp. v. Lezak*, 503 N.E.2d 681, 683 (N.Y. 1986); *Doyle v. Allstate Ins. Co.*, 136 N.E.2d 484, 487 (N.Y. 1956).

so provides, or if the award of attorney's fees is authorized by statute or by court rule." (App. 8a) However, immediately after observing that "the district court relied upon *Artvale*" to determine whether New York law allowed Exxon to recover attorneys' fees as damages for breach of the covenant not to sue, the Fifth Circuit proceeded to review "whether the district court correctly found that Lubrizol's suit was 'brought in obvious breach . . . or otherwise in bad faith'" under the *Artvale* standard. (App. 9a-10a) Thus, the Fifth Circuit never addressed the threshold question of whether *Artvale* is a correct statement of New York law given the decisions of New York's highest court articulating a contrary rule. *See* (App. 9a-13a)[2] Nor did the Fifth Circuit acknowledge any relevance of this Court's decision in *Salve Regina*, 111 S. Ct. at 1221-23, to the question of whether deferential or *de novo* review is appropriate as to an issue of state law previously determined by the federal court of appeals in which that state is located.[3]

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[2] The Fifth Circuit observed in a footnote that the *Artvale* rule had been applied by other *federal* courts "deciding cases under New York law." (App. 10a) But none of the three decisions cited by the Fifth Circuit contained any analysis of whether *Artvale* is consistent with New York law. *See Bellefonte Re Ins. Co. v. Argonaut Ins. Co.*, 757 F.2d 523 (2d Cir. 1985); *le Cordon Bleu, S.A. v. BPC Pub. Ltd.*, 451 F. Supp. 63 (S.D.N.Y. 1978); *Cefali v. Buffalo Brass Co.*, 748 F. Supp. 1011 (W.D.N.Y. 1990). Moreover, in two of the three cases, the courts refused to allow attorneys' fees as damages even under the *Artvale* rule. *Bellefonte*, 757 F.2d at 529; *le Cordon Bleu*, 451 F. Supp. at 71.

[3] The Fifth Circuit also held, (App. 14a-16a), that the district court had not abused its discretion in preventing Lubrizol from offering evidence to refute the amount of attorneys' fees claimed by Exxon or in accepting Exxon's attorneys' fee claim in its entirety, notwithstanding that it was highly questionable on its face. (*E.g.*, $635,000 of fees were

4. On May 13, 1992, Lubrizol filed a timely petition for rehearing with suggestion for rehearing en banc, which argued, *inter alia*, that the Fifth Circuit panel had failed to "make a *de novo* determination of governing state law issues" as required by *Salve Regina*. The petition was summarily denied on May 29, 1992. (App. 1a) The Fifth Circuit granted Lubrizol a stay of the mandate for thirty days, to and including July 11, 1992, in order to allow for the filing of this petition of certiorari.

REASONS FOR GRANTING THE WRIT

This case presents a question that petitioner submits is within the spirit of this Court's decision in *Salve Regina*, 111 S. Ct. at 1221-23, although not within the holding of that case. *Salve Regina* specifically addressed the standard of review to be applied by an appellate court presented with a district court decision deciding an issue of state law, and concluded that such issues should be decided on appeal *de novo*. In this case, the issue posed is whether this *de novo* review requirement applies as well where a question of state law was previously resolved by the court of appeals for the circuit including the state whose law is in issue. The decision below accepted the erroneous construction of New York law adopted by the district court, which relied exclusively as its source of New York law on a single decision of the Court of Appeals for the

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substantiated only by unitemized bills "for legal services rendered" at the rate of $5000 per day.) Judge Garza dissented in part from the court's decision because it declined to subject Exxon's fee claims to the reasonableness analysis required by *Johnson v. Georgia Highway Express*, 488 F.2d 714 (5th Cir. 1974). (App. 18a-19a)

Second Circuit. Because two other circuits have explicitly recognized deference to be due such an appellate court ruling -- one of them since *Salve Regina* was decided -- and another circuit has specifically found no deference to be appropriate, there is a split in the circuits requiring that this Court address this issue.

1. In *Salve Regina*, this Court rejected the deferential standard that had been adopted by a majority of the circuits in reviewing district courts' determinations of state law. 111 S. Ct. at 1221-23. The Court explained that "[i]ndependent appellate review of legal issues best serves the dual goals of doctrinal coherence and economy of judicial administration" -- goals that were recognized to be no less important when federal courts are applying state law under the doctrine of *Erie R.R. v. Tompkins*, 304 U.S. 64 (1938), to cases within their diversity jurisdiction. 111 S. Ct. at 1221, 1222. Indeed, said the Court, "appellate deference to the district court's determination of state law is inconsistent with the principles underlying this Court's decision in *Erie*," which sought to ensure that the substantive rule applied to a dispute would not vary depending on the litigants' choice of a state or federal forum. *Id.* at 1222.

The Court explained that the federal courts of appeals must, under a *de novo* standard of review, undertake "a careful consideration of the district court's legal analysis" of state law. *Id.* at 1221. To be sure, said the Court, "[i]f the court of appeals finds that the district court's analytical sophistication and research have exhausted the state-law inquiry, little more need be said in the appellate opinion." *Id.* at 1222. But the Court emphasized that *de novo*

review "does not admit of unreflective reliance on a lower court's inarticulable intuitions." *Id.*

2. In this case, the Fifth Circuit engaged in none of the careful legal analysis of state law called for in *Salve Regina*, 111 S. Ct. at 1221. The Fifth Circuit recognized that Lubrizol was challenging the district court's analysis of New York law on the question of when attorneys' fees may be recovered as damages for breach of a covenant not to sue. (App. 8a) However, the Fifth Circuit simply acquiesced in the district court's conclusion that the Second Circuit's 26-year-old decision in *Artvale* -- which did not even purport to be decided on state-law grounds -- correctly stated the current New York rule as to the circumstances in which such damages may be recovered. (App. 9a-10a) Nor did the district court's own opinion contain any reasoned analysis of why *Artvale* should be viewed as an accurate expression of New York law.[4] It is thus evident that the Fifth Circuit engaged in precisely the sort of "unreflective reliance on a lower court's inarticulable intuitions" that is contrary to a *de novo* standard of review. *Salve Regina*, 111 S. Ct. at 1222.

Had the Fifth Circuit inquired into the decisions of the New York courts, it would have discovered a substantial quantity of New York authority inconsistent with *Artvale*.

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[4] Indeed, the district court improperly focused its inquiry on what "the Second Circuit would hold that New York law provides," not on what the New York courts themselves would hold based on the existing New York law precedents. (App. 46a) The district court also seemed to suggest that, just as one Fifth Circuit panel is required to defer to the decision of a prior Fifth Circuit panel on a question of state law, the courts of other circuits should defer to the Second Circuit's decision in *Artvale*. (App. 46a)

The New York Court of Appeals has delineated on a number of occasions, both before and after *Artvale*, the limited circumstances in which attorneys' fees may be recovered as damages. The Court of Appeals stated on each of those occasions that attorneys' fees cannot be recovered absent express authorization by contractual agreement, statute or court rule. *See, e.g., Hooper Assoc., Ltd. v. AGS Computers, Inc.*, 548 N.E.2d 903, 904 (N.Y. 1989); *A.G. Ship Maintenance Corp. v. Lezak*, 503 N.E.2d 681, 683 (N.Y. 1986); *Doyle v. Allstate Ins. Co.*, 136 N.E.2d 484, 487 (N.Y. 1956). The Fifth Circuit did not cite any of these decisions of New York's highest court -- all of which had been called to its attention by Lubrizol -- much less offer any reason why the rule articulated in those decisions is not equally applicable here.

3. Since this Court's decision in *Salve Regina*, a number of appellate courts have followed its instruction to review rigorously the state-law determinations of district courts. *See, e.g., American Title Ins. Co. v. East West Fin. Corp.*, 959 F.2d 345, 348-49 (1st Cir. 1992) (reversing district court's state-law analysis after *de novo* review); *High v. Balun*, 943 F.2d 323, 326-27 (3d Cir. 1991) (same); *Spencer v. Kroger Co.*, 941 F.2d 699, 701-03, 705 (8th Cir. 1991) (same); *see also City Public Serv. Bd. v. General Elec. Co.*, 935 F.2d 78, 80-82 (5th Cir.), *modified*, 947 F.2d 747 (5th Cir. 1991) (affirming district court decision after "plenary review of the district court's interpretation of Texas law").[5]

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[5] It appears that other circuits are still struggling with the concept of *de novo* review of state-law questions. For example, in a case decided a full eight months after *Salve Regina*, a Fourth Circuit panel continued to "accord substantial deference to the opinion of a federal district

As contrasted with the present case, this approach to appellate review is most starkly demonstrated by *Gruver v. Midas Int'l Corp.*, 925 F.2d 280 (9th Cir. 1991), which reversed a district court on the same state-law issue presented in this case. In *Gruver*, after concluding that the plaintiffs had previously released their claims against the defendant by entering into settlement agreements, the district court awarded the defendant its attorneys' fees as damages for having to defend against those claims. *Id.* at 282. The Ninth Circuit reviewed the district court's decision *de novo*, examining the Oregon case law and the Colorado Supreme Court's "comprehensive review of the cases in this area" from other states. *Id.* at 282, 283-84.[6] The Ninth Circuit ultimately concluded that the district court's damages award could not be sustained under Oregon law, which was found to adhere to the majority rule "that attorneys' fees are recoverable in a breach of

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judge [sitting in the involved state] because of his familiarity with the state law which must be applied." *Vandyke v. Island Creek Coal Co.*, No. 91-3022, 1991 U.S. App. LEXIS 27680, at *6 (4th Cir. Nov. 22, 1991) (internal quotation marks omitted). An Eleventh Circuit panel has offered the internally inconsistent statement that "[w]hile we generally accord deference in diversity cases to a district court's interpretation of the law of the state in which it sits, the Supreme Court has conclude[d] that a court of appeals should review *de novo* a district court's determination of state law." *Insurance Co. of N. Am. v. Lexow*, 937 F.2d 569, 571 (11th Cir. 1991) (internal quotation marks omitted). And a Tenth Circuit panel recently characterized *Salve Regina* as holding that an "appellate court *need* not defer to [a] district court ruling on questions involving the interpretation of state law." *Hand v. Matchett*, 957 F.2d 791, 794 (10th Cir. 1992) (emphasis added).

[6] The Ninth Circuit had concluded even before *Salve Regina* that district courts' state-law determinations must be reviewed *de novo*. *Churchill v. F/V Fjord (In re McLinn)*, 739 F.2d 1395 (9th Cir. 1984) (en banc).

contract action between the parties to the contract only where the contract provides for them." *Id.* at 284 (citing Oregon cases).

4. The approach of the Fifth Circuit in this case can be proper only if the *de novo* review requirement of *Salve Regina* is inapplicable where the relevant state-law issue has been addressed not only by the district court below, but also by the court of appeals for the circuit in which the state is located. Whether deference is due another circuit's analysis of a local state's law is an issue on which a conflict presently exists and on which review by this Court is appropriate.

The question of what deference, if any, should be accorded another circuit's analysis of a local state's law was first addressed in *Factors Etc., Inc. v. Pro Arts, Inc.*, 652 F.2d 278 (2d Cir. 1981), *cert. denied*, 456 U.S. 927 (1982). In *Factors*, the Second Circuit was confronted with a question of Tennessee law that, while never addressed by the Tennessee Supreme Court, had recently been decided by the Sixth Circuit.[7] In an opinion by Judge Newman, the Second Circuit majority concluded that -- regardless of how they would have decided the Tennessee-law question as members of the Sixth Circuit in the earlier case -- they should now defer to the Sixth Circuit's resolution of that question. 652 F.2d at 282-83. According to the majority, when a federal court of appeals has declared the law of a state within its circuit,

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[7] *Memphis Development Foundation v. Factors Etc., Inc.*, 616 F.2d 956 (6th Cir.), *cert. denied*, 449 U.S. 953 (1980).

> the federal courts of other circuits should defer to that holding, perhaps always, and at least in all situations except the rare instance when it can be said with conviction that the pertinent court of appeals has disregarded clear signals emanating from the state's highest court pointing toward a different rule.

Id. at 283. The majority reasoned that such deference would promote "both the orderly development of state law and fairness to those subject to state law requirements" by providing a single legal rule applicable throughout the federal system until altered by the state supreme court or legislature. *Id.* at 282.[8]

The District of Columbia Circuit has adopted the Second Circuit's rule of "defer[ence] to the local circuit's view of the law of a state in its jurisdiction." *Abex Corp. v. Maryland Cas. Co.*, 790 F.2d 119, 125 (D.C. Cir. 1986). Even since *Salve Regina*, the D.C. Circuit has reaffirmed its view that "a home circuit's view of state law is entitled to deference." *Independent Petrochemical Corp. v. Aetna Cas. & Sur. Co.*, 944 F.2d 940, 944, 945 (D.C. Cir. 1991), *cert. denied*, 112 S. Ct. 1777 (1992). In explaining why a measure of deference was appropriate in such a circumstance, the court took note of

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[8] In dissent, Judge Mansfield argued that no such deference was appropriate, asserting that "[s]oundness must not be sacrificed on the altar of consistency." 652 F.2d at 286. In any event, said Judge Mansfield, any consistency achieved by the majority's rule would be "fortuitous and arbitrary," since deference would run only in favor of the circuit that contained the state whose law was at issue, and not in favor of other circuits that might have previously decided the same state-law question. *Id.*

> [o]ne rather obvious consideration [that] favors that course. If our interpretation of Missouri law were at odds with the Eighth Circuit's, only the Supreme Court could resolve the resulting conflict. . . . Intercircuit conflicts could be entirely avoided if, after the first federal appellate court ruled, other federal courts of appeals simply followed that ruling without exercising any independent judgment.

944 F.2d at 944. While the D.C. Circuit ultimately declined to adopt the Eighth Circuit analysis of Missouri law in favor of a contrary position perceived to be more consistent with the Missouri authorities, there is no doubt that the D.C. Circuit has, since *Salve Regina*, rejected that decision's rule of *de novo* review as inapplicable where another circuit has made a determination of local state law.

In contrast to the Second Circuit and the D.C. Circuit, the Third Circuit has refused to accord *any* deference to another court of appeals' analysis of the law of a state within that circuit. *See Makoroff v. City of Lockport, New York*, 916 F.2d 890, 894-96 (3d Cir. 1990), *cert. denied*, 111 S. Ct. 1640 (1991). In *Makoroff*, the Third Circuit was faced with a question of New York law that had recently been decided by the Second Circuit.[9] However, rather than defer to the Second Circuit's resolution of the state-law question, the Third Circuit majority examined the question *de novo* and ultimately reached a result contrary to the Second Circuit's. 916 F.2d at 895. The Third

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[9] *Lincoln Sav. Bank, FSB v. Suffolk County Treasurer (In re Parr Meadows Racing Ass'n)*, 880 F.2d 1540 (2d Cir. 1989), *cert. denied*, 493 U.S. 1058 (1990).

Circuit did not identify any "clear signals emanating from the state's highest court pointing toward a different rule" -- the showing that the Second Circuit and the D.C. Circuit have required in order to depart from another circuit's analysis of a local state's law. *Factors*, 652 F.2d at 283; *Independent Petrochemical*, 944 F.2d at 945. In dissenting from the majority's resolution of the state-law question, Judge Weis argued that "deference is due the Second Circuit's reading of local law." 916 F.2d at 897.

The Fifth Circuit's approach in this case reflects a more extreme form of deference -- blind deference -- to another circuit's statement about the law of one of its local states. In this case, a 26-year-old circuit court decision is looked to as fully dispositive of New York law on the availability of attorneys' fees. This action is plainly incorrect and requires reversal. At the same time, the Court should address in a plenary manner and resolve the conflict in the circuits on the question of appellate court deference to other federal appellate rulings on question of local state law.

CONCLUSION

The petition for writ of certiorari should be granted.

Respectfully submitted,

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July 10, 1992

APPENDIX

IN THE UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 91-2514

THE LUBRIZOL CORPORATION,
Plaintiff-Appellant,

versus

EXXON CORPORATION.
Defendant-Appellee.

Appeal from the United States District Court for the Southern District of Texas

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ON PETITION FOR REHEARING AND SUGGESTION FOR REHEARING EN BANC

(Opinion 4-15-92, 5 Cir., 199__, _____ F.2d _____).

Before POLITZ, KING and EMILIO M. GARZA, Circuit Judges.

PER CURIAM:

(X) The Petition for Rehearing is DENIED and no member of this panel nor Judge in regular active service on the Court having requested that the Court be polled on rehearing en banc, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is DENIED.

( ) The Petition for Rehearing is DENIED and the Court having been polled at the request of one of the members of the Court and a majority of the Circuit Judges who are in regular active service not having voted in favor of it, (Federal Rules of Appellate Procedure and Local Rule 35) the Suggestion for Rehearing En Banc is also DENIED.

( ) A member of the Court in active service having requested a poll on the reconsideration of this cause en banc, and a majority of the judges in active service not having voted in favor of it, rehearing en banc is DENIED.

ENTERED FOR THE COURT:

/s/ Emilio M. Garza
United States Circuit Judge

Filed May 29, 1992
Gilbert F. Ganucheau, Clerk

**IN THE UNITED STATES COURT OF APPEALS,
FOR THE FIFTH CIRCUIT**

No. 91-2514.

The LUBRIZOL CORP.,
Plaintiff-Appellant,

v.

EXXON CORP., Charles R. Evans, Richard D. Lower,
and GATES Data Center,
Defendants-Appellees.

April 15, 1992.

Before POLITZ, Chief Judge, KING, and EMILIO M. GARZA, Circuit Judges.

PER CURIAM:

The Lubrizol Corporation ("Lubrizol") commenced this action for fraud against the Exxon Corporation ("Exxon"), two Exxon employees ("Evans" and "Lower"), and an entity called GATES Data Center on the grounds that defendants had mishandled confidential Lubrizol information. Exxon counterclaimed for litigation expenses incurred because of Lubrizol's breach of a covenant not to sue entered into as part of a settlement agreement. The district court granted judgment in favor of defendants as to Lubrizol's claims. Those claims were separately appealed, and we affirmed the district court's summary judgment on them.

As for Exxon's counterclaim, the district court, ruling that Lubrizol's breach of the parties' covenant not to sue was obvious, granted judgment in Exxon's favor. As a sanction for Lubrizol's failure to comply with the district court's order directing Lubrizol to submit specific attorney's fees information, the court accepted Exxon's proof of its attorney's fees and awarded Exxon judgment for $2,424,462.04. Lubrizol now appeals that judgment.

Finding that Lubrizol's breach was obvious and that the district court has broad discretion to sanction Lubrizol, we affirm.

I

This case is the postscript to one we have heard before.[1] The following is a summary of the facts and procedural background relevant to this appeal.

This action arises out of a lawsuit -- the so-called "computer dispute" -- Lubrizol instituted in 1982 against Exxon in the United States District Court for the District of New Jersey. During discovery in the New Jersey suit,

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[1]For a full narration of the facts, see *Lubrizol Corp. v. Exxon Corp.*, 871 F.2d 1279 (5th Cir. 1989). In that opinion authored by Judge Edith H. Jones, the court firmly rejected Lubrizol's argument that the covenant not to sue did not embrace its fraud claims. The court held that the settlement agreement "is unambiguous insofar as it released any claim that Lubrizol might have brought against Exxon resulting from the computer dispute." 871 F.2d at 1286. Also, the court was highly critical of Lubrizol's arguments to the contrary, saying they were "too contradictory ... to be credited" and had an "air of unreality" that was "too thin." *Id.* at 1284 n. 7, 1286.

the parties stipulated to a protective order requiring identification of all individuals having access to the confidential information exchanged between the parties. That order also specified the locations where this information was to be housed and designated that the Exxon law department would have exclusive control over the computer system storing the confidential information. Asserting that Exxon had violated this protective order, Lubrizol moved for sanctions. In September 1984, the parties signed a settlement agreement that disposed of all claims in the New Jersey case and provided for the entry of a stipulation of dismissal with prejudice.

Lubrizol then filed a complaint in the United States District Court for the Southern District of Texas against defendants Exxon, Lower, and Evans, seeking some $200,000 in compensatory damages allegedly caused by fraud and violations of the New Jersey protective order. After two years of hotly contested discovery, Lubrizol asserted that, because Exxon had deliberately destroyed evidence, it could prove only about $40,000 in compensatory damages. Exxon counterclaimed for breach of the settlement agreement, violation of the New Jersey protective order, and fraud; Lower and Evans counterclaimed for defamation. Ultimately, the district court granted Exxon's motion for summary judgment, which Lubrizol appealed to this court. *See generally Lubrizol*, 871 F.2d at 1279.

In considering Lubrizol's first appeal, we held that Lubrizol's fraud claims had been made in the earlier New Jersey federal case in the form of motions for sanctions concerning the computer dispute. Following that decision, and with Exxon's counterclaim for breach of the covenant not to sue still pending, Lubrizol -- without prior notice to

the district court, this court, or to Exxon -- filed a new lawsuit in the New Jersey federal district court seeking reformation of the settlement agreement between Lubrizol and Exxon to exclude settlement of the computer dispute. Exxon filed a motion to dismiss the New Jersey action, which was granted on January 23, 1990. Lubrizol then appealed to the Third Circuit, which affirmed that dismissal. See *Lubrizol Corp. v. Exxon Corp.*, 929 F.2d 960 (3rd Cir. 1991).

Meanwhile, back in the Texas action, Exxon filed a motion for summary judgment on its counterclaim for litigation expenses incurred because of Lubrizol's breach of the covenant not to sue -- a covenant entered into as part of the settlement agreement resolving Lubrizol's original New Jersey action. Exxon argued that, since Lubrizol breached the settlement agreement by reasserting claims that the United States District Court for the Southern District of Texas and this court found were clearly and unambiguously covered by Lubrizol's covenant not to sue, Lubrizol's breach was obvious as a matter of law. Lubrizol filed a counter motion, arguing that its breach was not obvious and that it had acted in good faith as a matter of law. In November 1990, the district court granted Exxon's motion and denied Lubrizol's.[2]

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[2]Lubrizol then filed a motion for reconsideration, or, in the alternative, for certification under section 1292(b) of Title 28 for an interlocutory appeal. In its motion for reconsideration, Lubrizol argued for the first time that Exxon should be estopped from claiming the breach was an obvious one because of statements made by Exxon that allegedly led Lubrizol to believe that the computer dispute had not been settled. The district court denied this motion on that grounds that Lubrizol's assertion of estoppel was untimely.

During a December 1990 conference, Exxon and Lubrizol agreed to submit affidavits to support and contest Exxon's litigation expenses. Exxon filed two affidavits to prove total litigation expenses of $2,424,462.04, which was accompanied by two volumes of supporting documentation. Lubrizol then filed a motion to have the court set a discovery schedule, to which the district court responded by ordering ("February 1991 order") Lubrizol to file a statement of any necessary discovery including, but not limited to, the name of anyone to be deposed and the reason why. Lubrizol responded by filing a ten-page affidavit and thirty-one page memorandum that failed to set forth the items and amounts it was not contesting, the amounts that it considered reasonable for items in dispute, and the names of anyone it wished to depose.

The district court ruled that Lubrizol had failed to comply with its February 1991 order by not providing the information required and, as a sanction for Lubrizol's "egregious" conduct, accepted Exxon's affidavits as uncontradicted. The district court also found the $2.4 million figure to be both reasonable and conservative and found the Exxon affidavits to be thorough and supported by ample documentation; accordingly, the district court awarded Exxon the full $2.4 million.

II

Lubrizol again appeals to this court, this time contending: (a) that the district court erred in ruling that Lubrizol's breach of the parties' covenant not to sue was obvious and by imposing liability in accordance with New York law; and (b) that the district court abused its discretion when it accepted Exxon's proof of its $2.4

million in litigation expenses as uncontradicted and awarded Exxon judgment for that amount as a sanction for Lubrizol's failure to comply with the district court's February 1991 order.

A

Lubrizol asserts that: (i) according to New York law, attorney's fees may be awarded as damages for a breach of contract only if the contract expressly and unmistakably so provides, or if the award of attorney's fees is authorized by statute or by court rule; (ii) the case relied upon by the district court -- *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002 (2d Cir. 1966) -- actually supports Lubrizol's position since the case states unequivocally that a party is not subject to damages for a good faith testing of the scope of a covenant not to sue, and the rule set down in *Artvale* requires a finding that a party acted in bad faith before attorney's fees will be awarded for breach of a covenant not to sue;[3] and (iii) the district court erred in finding that contract was "unambiguous." We disagree.

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[3]Specifically, Lubrizol contends that:

> The district court did not conclude that Lubrizol's fraud claim against Exxon was [a] bad faith breach of the Settlement Agreement between the parties; and the overwhelming evidence in the record of Lubrizol's reasonable belief -- based on the statements and conduct of Exxon -- that its fraud claim against Exxon was not included in the Settlement Agreement makes the award of attorney's fees erroneous as a matter of law.

Brief for Appellant at 8, *Lubrizol Corp. v. Exxon Corp.*, No. 91-2514 (5th Cir. filed Aug. 30, 1991) ["Lubrizol Brief"].

It is undisputed that, by its express terms, the Settlement Agreement entered into by the parties on September 7, 1984 is governed by New York law. Also, we have already decided "that the settlement agreement is unambiguous insofar as it released any claim that Lubrizol might have brought against Exxon resulting from the computer dispute." *Lubrizol*, 871 F.2d at 1286.[4] The question now before this court is whether the district court correctly applied New York law in finding that Lubrizol's breach of the parties' covenant not to sue was obvious and, in accordance with that finding, correctly imposed liability.

In awarding Exxon its litigation expenses, the district court relied upon *Artvale*, 363 F.2d at 1002 -- a case that both frames the issue before us and sets a standard for resolving it:

> The question, in other words, is to be solved not by invoking an abstract rule of law but by seeking to determine what the parties fairly contemplated [in drafting their Settlement Agreement], or would have had they addressed their minds to the problem. Certainly it is not beyond the powers of a lawyer to draw a covenant not to sue in such terms as to make clear that any breach will entail liability for damages,

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[4]Although this Settlement Agreement is part of the record before this court, *see* Record Excerpts of Appellant at tab 16, p. 120, *Lubrizol Corp. v. Exxon Corp.*, No. 91-2514 (5th Cir. filed Aug. 30, 1991) ["Record Excerpts"], the parties originally agreed that this Agreement would remain confidential. *Id.* at 129, art. VII, ¶ 7.01. In deference to this agreement between the parties and the fact that we do not feel it would make a substantial contribution to this opinion, we abstain from quoting the actual text in any detail.

> including the most certain of all -- defendant's litigation expense. Yet to distill all this out of the usual formal covenant would be going too far; its primary function is to serve as shield rather than as a sword, often being employed instead of a release to avoid the common law rule with respect to the effect of a release on joint tortfeasors. *In the absence of contrary evidence, sufficient effect is given the usual covenant not to sue if, in addition to its service as a defense, it is read as imposing liability only for suits brought in obvious breach or otherwise in bad faith -- clearly not the situation here.*

Id. at 1008 (emphasis added)[5] In short, we must determine whether the district court correctly found that Lubrizol's suit was "brought in obvious breach [of the covenant not to sue] or otherwise in bad faith."[6]

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[5]The *Artvale* rule has been applied by courts deciding cases under New York law. *See, e.g., Bellefonte Re Ins. Co. v. Argonaut Ins. Co.*, 757 F.2d 523 (2nd Cir. 1985); *Le Cordon Bleu, S.A. v. BPC Pub. Ltd.*, 451 F.Supp. 63 (S.D.N.Y. 1978); *Cefali v. Buffalo Brass Co.*, 748 F.Supp. 1011 (W.D.N.Y. 1990).

[6]Lubrizol argues that "obvious breach or otherwise in bad faith" requires a separate finding of bad faith. See Lubrizol's Brief at 19. Lubrizol shifts the emphasis to "obvious breach *or otherwise* in bad faith." To reiterate Judge Jones' reply to a similar argument made by Lubrizol, "[w]e cannot accept either the grammatical or linguistic underpinnings of this argument." *Lubrizol*, 871 F.2d at 1286. *See Cefali*, 748 F.Supp. at 1011 (awarding litigation expenses to defendant that prevailed on its New York common law counterclaim for an obvious breach of a covenant not to sue, and concluding that the court did not, therefore, need to rule on defendant's motions for litigation expenses on grounds that plaintiffs' claims were baseless and made in bad faith).

The district court, applying the *Artvale* rule, found that "Lubrizol's breach of the covenant not to sue was an obvious one."[7] We agree. Lubrizol's chief contention is that its breach was a good faith test of the covenant not to sue -- a practice recognized as acceptable in *Artvale*. As support for this proposition, Lubrizol notes that the district court originally denied Exxon's motion to dismiss in 1986. Lubrizol also relied upon communications between Lubrizol's chief legal officer, Roger Hsu, and Exxon Chemical Company's general counsel, James Phillips -- evidence that the district court and this court refused to consider on the grounds that (i) the parol evidence rule bars consideration of prior statements to contradict an unambiguous covenant, and (ii) because the settlement agreement unambiguously prohibits subsequent modifications. *See Lubrizol*, 871 F.2d at 1286-87; Record Excerpts at tab 11, pp. 81-83.

First, in its June 1990 Memorandum in Opposition to Exxon's Motion for Summary Judgment, Lubrizol admitted that its "actions involve no direct or deliberate challenge to the scope of the settlement agreement[.]" We find that

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[7]More specifically, the district court held that:

> Both this court and the Fifth Circuit have found that the claims brought by Lubrizol in this case were clearly and unambiguously release in the New Jersey Settlement Agreement. Consequently, there can be no genuine factual dispute regarding whether Lubrizol's breach of the covenant not to sue was an obvious one. Exxon's motion for summary judgment as to Lubrizol's liability for damages, including attorney's fees and other litigation expenses, should be granted.

Record Excerpts at tab 9, p. 68 (Memorandum and Order filed Nov. 8, 1990).

this discredits Lubrizol's good-faith assertion argument. Second, although the district court originally denied Exxon's motion to dismiss, we note that this early ruling of the district court was vacated by that same court's July 27, 1987 order, which this court later affirmed.[8] Third, we stand behind our earlier decision and again refuse to consider the Hsu-Phillips communications. Our reasons have not changed.[9] Accordingly, we find that Lubrizol's

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[8]Judge DeAnda vacated his earlier order after the New Jersey settlement agreement and order of dismissal were introduced at the trial and he had the opportunity to reexamine these exhibits.

[9]*See Lubrizol*, 871 F.2d at 1286-87. Even if the Hsu-Phillips communications were relevant to the question of obvious breach, Lubrizol cannot assert with credibility that such communication gave Lubrizol a good-faith belief that it could file suit against Exxon on claims that Lubrizol had clearly and unambiguously covenanted never to reassert. Lubrizol asserts that its alleged good-faith belief that it could file suit was based on "Exxon's own statements [by Phillips] that it did not consider the computer matter to have been settled by the Settlement Agreement." Lubrizol's Brief at 22. Lubrizol conveniently overlooked an April 12, 1985 letter from Phillips to Hsu that predates Lubrizol's suit and makes very clear Exxon's view that the computer dispute was settled:

> With respect to the reference in your April 4, 1985 letter to the "unresolved status of the computer issue," I do not agree with your characterization of the events surrounding the adjournment of Lubrizol's motion on that subject in the New Jersey case. Exxon and Lubrizol mutually agreed to adjourn your renewed motion so that the apparently fruitful settlement discussions would continue without diversions resulting from peripheral matters. That was why we both authorized your counsel, Mr. Del Deo, to advise Judge Debevoise that the parties were engaged in serious settlement discussions and that the hearing on the renewed computerization motion should be adjourned. As you know, that decision proved sound as we were able to agree to a settlement shortly thereafter

breach of the parties' covenant not to sue was obvious and that the district court rightfully imposed liability in accordance with New York law.

B

At a conference on December 12, 1990, the district court announced that it would hear, via affidavits, Exxon's proof of litigation expenses and Lubrizol's counterproof. Exxon complied by filing affidavits providing $2,424,462.04 in litigation expenses. Lubrizol failed to comply -- even after it was given a second chance.[10] Accordingly, the

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and thus avoided any necessity for the New Jersey Court to rule on what had become a moot point.

[10]Consider the district court's summation of Lubrizol's failure to comply with the December 12 order:

> Instead of the counteraffidavit which Lubrizol was to file in response to Exxon's affidavits, Lubrizol filed a motion for the Court to set a schedule for discovery. In order to provide Lubrizol with a second opportunity to meet its obligations under the December 12 order, the court signed an order on February 14, 1991, directing Lubrizol to file an affidavit setting forth (1) those items and amounts which were not contested, (2) the amounts which Lubrizol would consider reasonable for those items in dispute, and (3) a statement regarding what discovery was needed by Lubrizol, including the name of anyone to be deposed and the reason for the deposition. Lubrizol again failed to comply with the requirements of the Court, filing only a blanket objection to Exxon's submission "in its entirety." Lubrizol did not set forth any items and amounts which were not contested or the amounts it would consider reasonable for those items in dispute. Instead, Lubrizol made broad, general complaints about the alleged lack of detail in the Exxon affidavits. Lubrizol did not provide the Court with the name of any person needed to be deposed and the reason for the

district court decided to sanction Lubrizol by accepting Exxon's affidavits as uncontradicted.[11]

The sanction imposed by the district court is severe. However, "[t]he question, of course, is not . . . whether the Court of Appeals . . . would as an original matter have [chosen the sanction]; it is whether the District Court abused its discretion in doing so." *National Hockey League v. Metropolitan Hockey Club*, 427 U.S. 639, 642, 96 S.Ct. 2778, 2780, 49 L.Ed.2d 747, *reh'g denied*, 429 U.S. 874, 97 S.Ct. 197, 50 L.Ed.2d 158 (1976). Recently reinforced by the Supreme Court, the sanctioning power of district court is potent:

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deposition. Instead, Lubrizol simply maintained, again in very broad and general terms, that it needed more discovery.

Record Excerpts at tab 2, pp. 50-51.

[11] *Id.* at 51-52:

> Having been given two opportunities to submit a counteraffidavit as required by the Court and having failed on each occasion to do so, Lubrizol is no longer entitled to submit its counteraffidavit and Exxon's affidavits will be accepted as uncontradicted. The court recognizes that the large damages claim in this case makes this sanction seem harsh. The Court also finds, however, that Lubrizol's conduct has been egregious and that this severe sanction is both proper and virtually unavoidable.
>
> Because the Exxon affidavits are undisputed by counteraffidavit, there is no factual issue to be resolved by a trier of fact. Based upon the case law set forth above, the pleadings in this case, and the uncontradicted affidavits submitted by Exxon, the Court finds that Exxon has proved damages on its counterclaim in the amount of $2,424,462.04.

It has long been understood that "[c]ertain implied powers must necessarily result to our courts of justice from the nature of their institution," powers "which cannot be dispensed with in a court, because they are necessary to the exercise of all others." For this reason, "Courts of justice are universally acknowledged to be vested, by their very creation, with power to impose silence, respect, and decorum, in their presence, and submission to their lawful mandates." These powers are "governed not by rule or statute but by the control necessarily vested in courts to manage their own affairs so as to achieve the orderly and expeditious disposition of cases."

* * * * * *

As we recognized in *Roadway Express [v. Piper*, 447 U.S. 752, 100 S.Ct. 2455, 65 L.Ed.2d 488], outright dismissal of a lawsuit, which we had upheld in *Link [v. Wabash R. Co.*, 370 U.S. 626, 82 S.Ct. 1386, 8 L.Ed.2d 734], is a particularly severe sanction, yet is within the Court's discretion. Consequently, the "less severe sanction" of an assessment of attorney's fees is undoubtedly within a court's inherent power as well.

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[A] court may assess attorney's fees as a sanction for the "'willful disobedience of a court order.'" Thus, a court's discretion to determine "[t]he degree of punishment for contempt" permits the court to impose as part of the fine attorney's fees representing the entire cost of the litigation.

Chambers v. Nasco, Inc., ___ U.S. ___, ____, 111 S.Ct. 2123, 2132-33, 115 L.Ed.2d 27 (1991) (citations omitted).

The district court's February 14 order[12] bestowed upon Lubrizol the opportunity to conduct discovery into Exxon's litigation expenses, and, had Lubrizol exercised that opportunity, it highly likely that the district court would have heard its arguments and Exxon's counter-arguments. Rather, Lubrizol failed to comply and has missed its opportunity to persuade the district court as to what constitutes a reasonable fee.

Lubrizol goes on to argue that the award of attorneys' fees made to Exxon was improper because Exxon made no showing of the reasonableness of the fees requested. Lubrizol urges us to remand the case to the district court with instructions to make the inquiry mandated by this Court in *Johnson v. Georgia Highway Express*, 488 F.2d 714 (5th Cir. 1974). We decline to do that. The district court found that when compared to the $2,028,000 incurred by Lubrizol for two years of pretrial proceedings, the $2,400,000 incurred by Exxon for the entire six-year duration of this litigation is "both reasonable and conservative."[13] We review that conclusion under an

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[12]*See supra* note 15.

[13]The district court made the following analysis:

> The amount claimed by Exxon ($2,424,462.04) does not include expenses for paralegal services or time spent on the case by non-attorney executives at Exxon. The claimed amount is only for work performed on this case by Exxon Litigation Section attorneys and for attorneys fees charged to Exxon by outside law firms, fees which were determined to be proper by Exxon and, consequently, paid by

abuse of discretion standard.[14] We are not prepared to say, with the case in its peculiar procedural posture as a result of Lubrizol's failure to comply with the district court's order, that the district court abused its discretion in arriving at the amount of the fee. Indeed, the district court's conclusion is perfectly reasonable. To send this case back for the district judge to go through the *Johnson* hoops, on the basis of the same record and without any further input from Lubrizol, would be a needless exercise. This case needs to come to an end.

Exxon. Additionally, the amount claimed by Exxon is for the entire course of the proceedings. The Court notes that Lubrizol's evidence at trial established that it incurred $2,028,000.00 in attorneys fees during the pre-trial proceedings. Much of the work performed during that stage involved Exxon and Lubrizol working on like matters, albeit from opposing sides. When compared to the amount incurred and deemed reasonable by Lubrizol prior to trial, the $2,424,462.04 claimed by Exxon for the entire litigation is both reasonable and conservative. The damages claim is supported by affidavits which are detailed and comprehensive, and which include two volumes of documentation as exhibits.

[14] *See Von Clark v. Butler*, 916 F.2d 255, 259 (5th Cir. 1990); *Leroy v. City of Houston*, 831 F.2d 576, 584 (5th Cir. 1987) ("The district court's findings of fact supporting its award are reviewed under the clearly erroneous standard, but the ultimate award of attorneys' fees is reviewed for abuse of discretion."), *cert. denied* 486 U.S. 1008, 108 S.Ct. 1735, 100 L.Ed.2d 199 (1988); *see also Hensley v. Eckerhart*, 461 U.S. 424, 437, 103 S.Ct. 1933, 1941, 76 L.Ed.2d 40 (1983) (district court has discretion in determining what is reasonable amount for litigation expenses and, because of its superior understanding of the litigation, frequent appellate review is to be avoided).

III

For the foregoing reasons, we AFFIRM the judgment of the district court.

EMILIO M. GARZA, Circuit Judge, dissenting in part:

I agree with everything in the panel opinion except for the decision not to send this case back to the district court with instructions to calculate Exxon's fee in accordance with the formula prescribed by this court in *Johnson v. Georgia Highway Express*, 488 F.2d 714 (5th Cir. 1974); *see also Hensley v. Eckerhart*, 461 U.S. 424, 429-40, 103 S.Ct. 1933, 1937-43, 76 L.Ed.2d 40 (1983) (applying *Johnson* factors), *clarified* by *Cobb v. Miller*, 818 F.2d 1227, 1231-32 (5th Cir. 1987).

In my view, the district court simply has not satisfied our *Johnson* standard.[15] Although I acknowledge that the

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[15]In rendering an award of attorney's fees, we have held that a district court *must* consider:

(1) the time and labor required;
(2) the novelty and difficulty of the question(s) presented;
(3) the skill requisite to properly perform the legal service;
(4) the preclusion of other employment due to the acceptance of the case;
(5) the customary fee;
(6) whether the fee is fixed or contingent;
(7) the time limitation imposed by the client or the circumstances;
(8) the amount involved and result obtained;
(9) the experience, reputation, and ability of the attorneys;
(10) the "undesirability" of the case;
(11) the nature and length of the professional relationship with the client; and

sanctioning power of the district court is potent (for example, I agree that the district court may calculate Exxon's fee based solely on the information supplied by Exxon), I am not comfortable in allowing the district court's power to sanction to serve as license for ignoring our *Johnson* formula -- especially where the district court has reduced its calculation of attorney fees to a comparative analysis of fees charged by counsel in the case before it and awarded $2.4 million.

Accordingly, I would vacate the amount of the district court's award and remand with instructions to apply the *Johnson* formula to the Exxon-supplied information.

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(12) awards in similar cases.

Johnson, 488 F.2d at 717-19 (including commentary on each factor).

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

THE LUBRIZOL CORPORATION Plaintiff/Counterdefendant,	)	
v.	)	CIVIL ACTION
	)	NO. H-85-2450
EXXON CORPORATION, Defendant/Counterplaintiff.	)	

MEMORANDUM OPINION

By memorandum and order signed November 5, 1990, Exxon Corporation ("Exxon") was granted summary judgment as to liability on Count I on its counterclaim against The Lubrizol Corporation ("Lubrizol"). The case is now before the Court for determination of the amount of damages properly awardable to Exxon on that count. As the Court has previously ruled, the measure of damages for Lubrizol's breach of the covenant not to sue contained in the New Jersey Settlement Agreement is the litigation expenses, including attorneys fees, incurred by Exxon as a result of Lubrizol's breach. *See Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002 (2d Cir. 1966); *Cefali v. Buffalo Brass Company, Inc.*, 748 F. Supp. 1011 (W.D.N.Y. 1990); *Widener v. Arco Oil & Gas Co.*, 717 F. Supp. 1211 (N.D. Tex. 1989). The Court notes that the attorneys fees claims by Exxon and supported by its affidavits are damages for breach of the settlement agreement, not attorneys fees claimed by Exxon as the

prevailing party in the litigation. The Court also notes that the litigation expenses to which Exxon is entitled are *all* litigation expenses which were incurred as a direct result of Lubrizol's breach of the covenant not to sue. This includes Exxon's defense of GATES, for which Exxon is the exclusive operator, and of Evans and Lower, employees of Exxon who were alleged to have participated with Exxon, in the course and scope of their employment, in a single scheme to defraud Lubrizol. Exxon's damages in this case also include litigation expenses incurred as a result of the counterclaims which were part of Exxon's defense strategy and which would not have been asserted but for Lubrizol's instituting litigation in breach of the settlement agreement.

Following entry of summary judgment in favor of Exxon as to Liability, a hearing was held on December 12, 1990. At that time it was agreed that determination of the amount of Exxon's damages would begin by submission of affidavits and counter-affidavits. In accordance with the conference order, Exxon filed its affidavits in support of its claim for damages. The amount claimed by Exxon ($2,424,462.04) does not include expenses for paralegal services or time spent on the case by non-attorney executives at Exxon. The claimed amount is only for work performed on this case by Exxon Litigation Section attorneys and for attorneys fees charged to Exxon by outside law firms, fees which were determined to be proper by Exxon and, consequently, paid by Exxon. Additionally, the amount claimed by Exxon is for the entire course of the proceedings. The Court notes that Lubrizol's evidence at trial established that it incurred $2,028,000.00 in attorneys fees during the pre-trial proceedings. Much of the work performed during that stage involved Exxon and Lubrizol working on like

matters, albeit from opposing sides. When compared to the amount incurred and deemed reasonable by Lubrizol prior to trial, the $2,424,462.04 claimed by Exxon for the entire litigation is both reasonable and conservative. The damages claim is supported by affidavits which are detailed and comprehensive, and which include two volumes of documentation as exhibits.

Instead of the counteraffidavit which Lubrizol was to file in response to Exxon's affidavits, Lubrizol filed a motion for the Court to set a schedule for discovery. In order to provide Lubrizol with a second opportunity to meet its obligations under the December 12 order, the Court signed an order on February 14, 1991, directing Lubrizol to file an affidavit setting forth (1) those items and amounts which were not contested, (2) the amounts which Lubrizol would consider reasonable for those items in dispute, and (3) a statement regarding what discovery was needed by Lubrizol, including the name of anyone to be deposed and the reason for the deposition. Lubrizol again failed to comply with the requirements of the Court, filing only a blanket objection to Exxon's submission "in its entirety." Lubrizol did not set forth any items and amounts which were not contested or the amounts it would consider reasonable for those items in dispute. Instead, Lubrizol made broad, general complaints about the alleged lack of detail in the Exxon affidavits. Lubrizol did not provide the Court with the name of any person needed to be deposed and the reason for the deposition. Instead, Lubrizol simply maintained, again in very broad and general terms, that it needed more discovery.

The court finds that Lubrizol has failed to comply with the February 14 order. The Court further finds that Lubrizol's explanation for its failure, that the Exxon

affidavits do not contain sufficient detail and that additional, unspecified discovery is needed, is not sufficient to excuse Lubrizol's failure to follow the court's order. The Exxon affidavits are detailed and thorough, and are supported by ample documentation It is clear that no discovery could be required on many elements of the damages claim, such as phone conversations, court appearances, and depositions in which Lubrizol's counsel also participated and would have first-hand knowledge. Indeed, page 1 of Exhibit 1 to the Johnson Affidavit contains an entry that REM and WRB attended the December 12 status conference, which was also attended by counsel for Lubrizol and as to which there is no basis for dispute. This item should have been noted by Lubrizol's attorney had he made any attempt to comply with the Court's order. Having been given two opportunities to submit a counteraffidavit as required by the Court and having failed on each occasion to do so, Lubrizol is no longer entitled to submit it counteraffidavit and Exxon's affidavits will be accepted as uncontradicted. The Court recognizes that the large damages claim in this case makes this sanction seem harsh. The Court also finds, however, that Lubrizol's conduct has been egregious and that this severe sanction is both proper and virtually unavoidable.

Because the Exxon affidavits are undisputed by counteraffidavit, there is no factual issue to be resolved by a trier of fact. Based upon the case law set forth above, the pleadings in this case, and the uncontradicted affidavits submitted by Exxon, the Court finds that Exxon has proved damages on its counterclaim in the amount of $2,424,462.04. An appropriate final judgment and order

consistent with this memorandum opinion shall be signed this day.

SIGNED this 9th day of May, 1991.

/s/ J. DeAnda
Chief Judge
United States District Court

IN THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

THE LUBRIZOL CORPORATION Plaintiff,	)	
v.	)	CIVIL ACTION NO. H-85-2450
EXXON CORPORATION, CHARLES R. EVANS AND RICHARD D. LOWER, Defendant.	)	

MEMORANDUM AND ORDER

This case is currently before the Court on The Lubrizol Corporation's ("Lubrizol's") motion for summary judgement on the counterclaim of Charles R. Evans and Richard D. Lower and on cross motions for summary judgment as to liability on Count I of Exxon Corporation's ("Exxon's) counterclaim against Lubrizol. Subject matter jurisdiction is proper on the basis of diversity of citizenship, 28 U.S.C. § 1332. The parties have submitted briefs, the Court does not believe that oral argument would assist the decision-making process, and the motions are ripe for resolution.

EVANS AND LOWER COUNTERCLAIM

The factual and procedural background of this case has been fully set forth in the memorandum and order of this Court signed January 20, 1988 and in the opinion of the

United States Court of Appeals for the Fifth Circuit in *Lubrizol Corp. v. Exxon Corp.*, 871 F.2d 1279 (5th Cir. 1989). For purposes of the defamation counterclaim, the material facts are undisputed. During a meeting on September 7, 1984 between Dr. Roger Hsu, chief legal officer for Lubrizol, and James Phillips, Exxon's in-house legal representative, Hsu allegedly made statements regarding affidavits sworn to by Evans and Lower which Hsu indicated were inconsistent and amounted to false statements under oath. At the time it is alleged these statements were made, two motions for sanctions were pending before the New Jersey court and the allegedly conflicting affidavits had been presented in connection with those motions.

In the memorandum and order signed by this Court on January 20, 1988, Lubrizol's motion for summary judgment on the defamation counterclaim was denied because factual issues relating to the conflict of laws question were in dispute. The Court notes that the conflict of laws issue has since been resolved by each potentially applicable jurisdiction having adopted similar rules regarding privilege, thus clearing the way for a ruling on Lubrizol's motion for summary judgment.

Statements made by attorneys, parties or witnesses in connection with pending or contemplated litigation and rationally related to that litigation are absolutely privileged under Texas law. *Davis v. Davis*, 734 S.W.2d 707 (Tex. App. - Houston [1st Dist] 1987, writ ref'd n.r.e.); *City of Brady v. Bennie*, 735 S.W.2d 275 (Tex. App. - Eastland 1987); *Russell v. Clark*, 620 S.W.2d 865 (Tex. Civ. App. - Dallas 1981, writ ref'd n.r.e.), under New Jersey law, *DeVivo v. Ascher*, 228 N.J. Super. 453, 550 A.2d 163 (A.D.

1988), *cert. denied* 114 N.J. 482, 555 A.2d 607 (1989); *Binkewitz v. Allstate Insurance Co.*, 222 N.J. Super. 501, 537 A.2d 723 (A.D. 1988), and under Ohio law, *Willitzer v. McCloud*, 6 Ohio St. 3d 447, 453 N.E.2d 693 (1983); *Wexler v. Jewish Hospital Association of Cincinnati*, Nos. C-820654, C-820906, Trial No. A-8106063 (Hamilton Cty. App. Oct. 26, 1983). Consequently, any statements made by counsel, parties, or witnesses (fact or expert) in connection with the New Jersey litigation, including the motions for sanctions, or in connection with contemplated litigation regarding the Evans and Lower affidavits would be absolutely privileged and Lubrizol is entitled to summary judgment as a matter of law.

The Court notes that counter-plaintiffs list a number of "other possible instances of defamation" which fail to specify what defamatory statements, if any, were made. Notwithstanding five years of litigation and discovery time, counter-plaintiffs have failed to present any evidence to support these possible occurrences. Such allegations of potential defamation are pure conjecture and speculation and, therefore, fail to raise a genuine issue of material fact. Lubrizol is entitled to summary judgment on these "other possible instances of defamation" as well.

CROSS-MOTIONS FOR SUMMARY JUDGMENT ON COUNT I OF EXXON'S COUNTERCLAIM

Exxon filed a counterclaim against Lubrizol, Count I of which seeks damages and litigation expenses for Lubrizol's breach of the covenant not to sue contained in the New Jersey Settlement Agreement. Lubrizol and Exxon have filed cross-motions for summary judgment as to liability on that count. The Court has previously considered the

relevant case law, specifically *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002 (3d Cir. 1966), and held in its January 20, 1988 memorandum and order that damages, including litigation expenses and attorney's fees, are recoverable for breach of a covenant not to sue in three limited situations: (1) the covenant specifically provides for such recovery; (2) the breach is an obvious one; or (3) the covenant is breached in bad faith otherwise than by an obvious breach. Both this Court and the Fifth Circuit have found that the claims brought by Lubrizol in this case were clearly and unambiguously released in the New Jersey Settlement Agreement. Consequently, there can be no genuine factual dispute regarding whether Lubrizol's breach of the covenant not to sue was an obvious one. Exxon's motion for summary judgement as to Lubrizol's liability for damages, including attorney's fees and other litigation expenses, should be granted. The amount of such damages incurred by Exxon as a result of Lubrizol's obvious breach will be determined later.

As part of its opposition to Exxon's motion for partial summary judgment, Lubrizol filed a cross-motion for summary judgment on Count I of Exxon's counterclaim. For the reasons stated above, Lubrizol's motion for summary judgment should be denied.

CONCLUSION AND ORDER

Based upon the foregoing, it is hereby ORDERED as follows:

(1) Lubrizol's motion for summary judgment on the Evans and Lower defamation counterclaim is *GRANTED*; and

(2) Exxon's motion for summary judgment as to liability on Count I of its counterclaim is *GRANTED*; and

(3) Lubrizol's motion for summary judgment on Count I of Exxon's counterclaim is *DENIED*; and

(4) Counsel for Lubrizol and Exxon shall appear before the Court in chambers on December 12, 1990 at 9:45 a.m for a status conference.

SIGNED this 5th day of November, 1990.

J. DeAnda
Chief Judge
United States District Court

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF TEXAS
HOUSTON DIVISION

LUBRIZOL CORPORATION	§	
	§	
	§	
vs.	§	CIVIL ACTION
	§	NO. H-85-2450
EXXON CORPORATION;	§	
ET AL.	§	

MEMORANDUM AND ORDER

Plaintiff Lubrizol Corporation (Lubrizol) instituted this action against Defendants Exxon Corporation (Exxon), Charles R. Evans (Evans), Richard D. Lower (Lower), and Gates Data Center (Gates), on May 8, 1985. On July 2, 1985, Defendants moved to dismiss Plaintiff's complaint under Fed. R. Civ. Pro. 12(b)(6). The court converted Defendants' motions to motions for summary judgment and on March 19, 1986, issued an interlocutory order denying the motions. The purpose of this Memorandum and Order is to grant Defendants' motions for summary judgment, and rule on all other pending motions.

The facts of the case remain unchanged. This action arises out of a lawsuit Lubrizol instituted against Exxon in the United States District Court for the District of New Jersey, hereinafter referred to as the New Jersey lawsuit. During discovery in the New Jersey suit, the parties

stipulated to a protective order. The protective order required identification of all individuals having access to the confidential information exchanged between the parties and specified the locations where this information was to be housed. Lubrizol discovered that its confidential information was being computerized by Exxon in Clear Lake, Texas, and consequently moved to have its information removed from the computer in accordance with the protective order. Exxon represented to Lubrizol that the computer system on which the confidential information was stored was under the exclusive control of the Exxon law department.

Lubrizol subsequently commissioned two independent experts to evaluate the integrity and security of the computer operations. The experts consulted with Defendant Evans, the manager of the litigation support group in Exxon's law department who had primary responsibility for the computer operations at Clear Lake, Texas. The experts also consulted Defendant Lower, an attorney employed by Exxon as an assistant for computer litigation support systems. Defendant Lower advised these experts that Exxon maintains the computer in Clear Lake, Texas, for processing litigation documents, that the Clear Lake facility is operated by Exxon law department personnel, that security at the facility is provided by Exxon, and that all documents are entered into the computer system by Exxon law department employees.

Several months later Lubrizol gained access to an affidavit filed by Defendant Evans in unrelated litigation in Louisiana. Evans stated in this affidavit that the Clear Lake computer facility is really a joint venture of five major oil companies, known as the Gates Data Center,

and that he is employed as the manager of the center.[1] He further explained that the data center is controlled by a management committee of five members -- one member from each participating oil company. He also asserted that Gates is not under the control of any single member of the participants.

Lubrizol then renewed its motion for sanctions for violations of the protective order in the New Jersey suit. By agreement of the parties, a ruling on the renewed motion for sanctions was postponed while Exxon and Lubrizol engaged in settlement negotiations. On September 27, 1984, the parties signed a settlement agreement that disposed of all claims in the New Jersey case and provided for the entry of a stipulation of dismissal with prejudice in the New Jersey court.

Lubrizol's complaint in this court originally sought, *inter alia*, some $200,000.00 in compensatory damages, allegedly caused by the fraud and violations of the New Jersey protective order. After two years of hotly contested discovery, during which Plaintiff alone incurred approximately 1.75 million dollars in attorneys fees, Lubrizol stated that it could prove only about $40,000.00 in compensatory damages. Lubrizol explained that Exxon's deliberate destruction of evidence has prevented it from proving any additional compensatory damages. (*See* Lubrizol's motion for default judgment of May 19, 1987.) Exxon counterclaimed for breach of the settlement agreement, violation of the New Jersey protective order and for fraud. Lower and Evans counterclaimed for

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[1]Gates is an anachronism for the data center used by the participating oil companies, Gulf, Amoco, Texaco, Exxon, and Shell.

defamation. Ultimately, the court ordered discovery terminated and set the case for trial.

On the fourth day of an estimated six-week trial, the New Jersey settlement agreement and order of dismissal were introduced as exhibits. The testimony prompted a re-examination of the exhibits which in turn prompted the court to question its previous denial of Defendants' summary judgment motions. The court's concern stemmed from its re-examination of the exhibits rather than the concurrent trial testimony. The court halted trial and expressed its inclination to grant Defendants' summary judgment. The court explained that a full trial might just result in a directed verdict, and allowed all parties ample opportunity to brief the issues. Thus, the court did not *sua sponte* grant Defendants summary judgment as Lubrizol briefing asserts, but rather changed its previous interlocutory ruling denying Defendants' motions because there is no genuine issue of fact and Defendants are entitled to judgment as a matter of law.

First, the issue of subject matter jurisdiction has been periodically raised by the parties but never addressed. Under F. R. Civ. Pro. 12(h)(3), the court shall dismiss a complaint if it finds, at any time, that it lacks subject matter jurisdiction over a claim. Exxon originally argued that Lubrizol's cause of action for fraud must be asserted in the New Jersey court. Exxon maintained that the cause of action, while framed as fraud, was really for breach of the New Jersey court's protective order. Thus, Exxon contended, Lubrizol must return to the New Jersey court to obtain a ruling on whether the New Jersey court's protective order was breached.

Later during the course of the litigation, after the court denied Defendants' motions for summary judgment, Exxon itself counterclaimed directly for breach of the New Jersey court's protective order. Lubrizol in turn moved to dismiss this counterclaim for lack of subject matter jurisdiction. Lubrizol reasoned that Exxon must return to the New Jersey court for a decision on whether its order was breached. After considering both parties' arguments this court has determined that both are correct; this court lacks subject matter jurisdiction to rule on claims that the New Jersey court's protective order was breached.

The remedy for breach of a court order, such as a protective order, is contempt. Criminal contempt is simply a punishment for violating a court order, albeit a harsh punishment. Civil contempt, however, serves as a punishment, a tool for achieving compliance, and a compensatory remedy for the party aggrieved. Only the court that issued the protective order may find a party in contempt. *See, e.g., Waffenschmidt v. Mackay*, 763 F.2d 711, 716 (5th Cir. 1985), *cert. denied* 106 S.Ct. 794 (1986); *Bedgood v. Cleland*, 554 F.Supp. 513, 517 (D. Minn. 1982). One rationale for this rule is that breach of a court order is an affront to the court that issued the order as well as an injury to the aggrieved party. A more practical rationale, however, is that no court can determine whether the order has been violated as effectively as the issuing court. The reasoning supporting this second rationale is somewhat reduced when the order is an agreed order submitted by the parties, such as the Lubrizol-Exxon New Jersey court protective order. Still, the issuing court is better able to construe the order than a court completely unfamiliar with the litigation.

This court has concluded that Lubrizol should not be allowed to avoid the obligation to return to the New Jersey court by simply labelling its cause of action as fraud. The court is persuaded by the fact that Lubrizol's "fraud" cause of action is entirely based on the same conduct on which Lubrizol based its motion for sanctions in the New Jersey court.[2]

The court is unable to discern a relevant difference between Lubrizol's fraud cause of action, which is really a cause of action for breach of the New Jersey court's protective order, and a motion for sanctions or contempt. If its allegations were proven correct, the New Jersey court could have awarded Lubrizol compensatory damages, costs, and attorneys' fees. *See, e.g., Quinter v. Volkswagon of America*, 676 F.2d 969, 975 (3d Cir. 1982); *Sharkman v. Democratic Org. of Cook County*, 533 F.2d 344, 351 (7th Cir. 1976), *cert. denied* 97 S.Ct. 156 (1976). The only damages to which Lubrizol may not have been entitled in New Jersey are punitive damages. Even so, Lubrizol should still be required to litigate the issue of the breach of the New Jersey order in the New Jersey court. If Lubrizol obtained a New Jersey court ruling that the order was breached and Lubrizol felt that it was entitled to punitive damages it could possibly then sue for fraud in a different court. While it could invoke collateral estoppel to establish breach of the order, it would have to prove the additional elements of fraud, such as malice. The prerequisites for punitive damages may not have been

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[2]The court notes that discovery conference orders issued under F.R.Civ.Pro. 26(f) present an analogous situation. If a party seeks sanctions for breach of a 26(f) order, it *must* return to the issuing court. *See* F.R.Civ.Pro. 37(b)(2).

litigated in the court of first instance since, for example, willfulness is not an element of civil contempt. *See, e.g., Rogers v. Webster*, 776 F.2d 607, 612 (6th Cir. 1985).

Nor was the New Jersey court an inadequate forum for a complete litigation of Lubrizol's motion for contempt, or sanctions. First, the same two parties involved in the patent dispute were involved in the protective order controversy, providing jurisdiction. Second, if Lubrizol thought it was entitled to a ruling on its motion for sanctions even after the settlement and submission of the dismissal order, it should have appealed the New Jersey court's refusal to rule. Compensatory civil contempt survives termination of the proceedings from which it arises. *See Shillitani v. United States*, 86 S.Ct. 1531 (1966), *cited in People's Housing Dev. Corp. v. City of Poughkeepsie*, 425 F.Supp. 482, 495 (S.D. N.Y. 1976). The ultimate conclusion is that it is inappropriate for this court to hear argument on whether the New Jersey court's protective order was breached when the New Jersey court issued the order and presents an adequate forum.

Alternatively, even if the court has subject matter jurisdiction, the court finds Lubrizol's complaint is barred by res judicata. It is well established that there are the following four elements of res judicata: (1) the parties must be identical in both suits; (2) the prior judgment must have been rendered by a court of competent jurisdiction; (3) there must have been a final judgment on the merits; and (4) the same cause of action must be involved in both cases. *See, e.g., Southmark Properties v. Charles House Corp.*, 742 F.2d 862, 869 (5th Cir. 1984).

There is no dispute that the New Jersey court is a court of competent jurisdiction. Additionally, the law is well

settled that a consent judgment or stipulation of dismissal based on settlement constitutes a final judgment on the merits. *See Ashtron Industrial Associates, Inc. v. Chrysler Motors Corp.*, 405 F.2d 958, 960 (5th Cir. 1968); *Bradford v. Bronner*, 665 F.2d 680, 682 (5th Cir. 1982). *See also Cahill v. Arthur Andersen & Co.*, 659 F. Supp. 1115, 1120 (S.D. N.Y. 1986).

The requirement that the parties be identical is an issue regarding Defendants Gates, Lower and Evans' motion for summary judgment. It is obviously not an issue between Lubrizol and Exxon because each was a party to both lawsuits.

The vigorously contested requirement for res judicata between Lubrizol and Exxon is the fourth requirement, that the same cause of action be involved in both cases. Lubrizol maintains that the settlement agreement is ambiguous and, additionally, asserts that extrinsic evidence creates a fact issue precluding summary judgment regarding the intent of the parties to settle the computer controversy.

Upon reconsideration of Exxon's motion the court is convinced that there is no material issue of fact and Exxon is entitled to judgment as a matter of law. The court finds that the settlement agreement and stipulation of dismissal are complete and unambiguous. The stipulation of dismissal filed in the New Jersey suit simply states that the parties agree "to the dismissal of the captioned action, including all claims and all counterclaims of any party, with prejudice, each party to bear its own costs and attorneys' fees." This dismissal order clearly dismisses all pending claims in the lawsuit, which would include

Lubrizol's pending renewed motion for sanctions based on the computer controversy.

The dismissal order must, of course, be ready in conjunction with the settlement agreement. There is nothing, however, ambiguous in the settlement agreement. Section 4.01 states that Lubrizol will not reassert "any claim or counterclaim made in the consolidated New Jersey action." More importantly, Section 4.02 lists the claims that Lubrizol was reserving and not settling. The language in Section 4.02 could not be clearer and in no way mentions the computer controversy. In reading Section 4.02, one is remind of *expressio unius est exclusio alterius*, the maxim of statutory interpretation. By specifically listing the pending claims Lubrizol intended to reserve and not settle in the New Jersey case, the unavoidable conclusion is that the failure to include the computer controversy in the list prevents Lubrizol from claiming it reserved this claim.

Article VII of the Settlement Agreement buttresses the court's conclusion that it is unambiguous. Section 7.01 provides that "[e]ither party, however, may also issue a statement to the effect that the consolidated New Jersey action has been amicably concluded with a payment to Lubrizol, without quantifying the amount of said payment." Section 7.02 provided that "[n]o modification, amendment or waiver of any provision of this Settlement Agreement shall be valid unless it is in writing and executed with the same formality as this Settlement Agreement." Moreover, Section 7.03 states that the Settlement Agreement "constitutes the sole and entire agreement between Lubrizol and Exxon with respect to such subject matter."

Lubrizol reurges its previously rejected argument that the term "claim" is ambiguous, or could be interpreted to include only the causes of action named in the pleadings, thus excluding a pending motion for sanctions. The court finds this argument unpersuasive. The court concludes that the plain meaning of "claim" would include a pending motion for sanctions. There is no definition of claim or motion in the settlement agreement to alter this conclusion.

Lubrizol also strenuously argues that extrinsic evidence of the parties' intent regarding whether the computer controversy was settled creates, at a minimum, a fact issue. The court agrees that there is conflicting extrinsic evidence concerning the intent of the parties to settle the computer controversy before the parties signed the settlement agreement. The fact issues created, however, are immaterial because the New York parol evidence rule[3] bars consideration of extrinsic evidence of a collateral agreement if that evidence is offered to prove a collateral agreement that conflicts with a complete and unambiguous written agreement. *See Azuma, N.V. v. Sinks*, 646 F.Supp. 122, 127 (S.D. N.Y. 1986); *Cortlandt v. Hutton*, 491 F.Supp. 1, 4 (S.D. N.Y. 1979); *Matthews v. Drew Chemical Corp.*, 475 F.2d 146, 149 (5th Cir. 1973); *Rodolitz v. Neptune Paper Products*, 22 N.Y.2d 383, 239 N.E.2d 628 (1968). While extrinsic evidence may be offered to prove intent or a collateral oral agreement, if the extrinsic evidence is proffered to show an intent or collateral oral agreement that conflicts with a clear written agreement, then the parol evidence rule prevents consideration of the extrinsic

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[3]Under Section 7.06 of the settlement agreement, New York law controls construction of the agreement.

evidence. *See Broad v. Rockwell International Corp.*, 642 F. 929, 946-47 (5th Cir. 1981) (applying New York law). As the *Broad* court stated, "[i]n interpreting the contract, a court must be concerned with what the parties intended, but only to the extent that they evidenced what they intended by what they wrote." *Broad*, 642 F.2d at 947 (citing *Rodolitz*).

In the case at hand, the parol evidence rule demands that the court ignore the extrinsic evidence Lubrizol offers on the parties' intent before or at the time they signed the agreement. Lubrizol proffers extrinsic evidence to show intent to create a collateral oral agreement not to settle the pending computer controversy. The court, however, has before it a clear, integrated settlement agreement. The agreement settles all pending claims in the New Jersey suit. Considering the sophistication of counsel involved in the case and the amount of attention focused on the computer controversy at the time, if the parties had not intended to settle the matter they certainly would have, or should have, referred to the issue in the agreement as not being resolved. The document contains provisions that themselves evidence the parties' intent to consider the settlement agreement the sole agreement, which the parties stated could not be altered without a contract executed with the same formality. Thus, the essential purpose of the parol evidence rules is served by binding Lubrizol to the terms of the written contract and granting Exxon summary judgment. The court notes that Lubrizol has not contended that the "fraud, duress or mistake" exceptions apply to prevent application of the parol evidence rule.

Lubrizol also proffers evidence pertaining to conduct occurring after the agreement was signed. Lubrizol asserts

that this evidence creates a fact issue precluding summary judgment. While Lubrizol is correct that this evidence would not be excluded by the parol evidence rule, the court finds that this evidence fails to create a genuine issue of fact on the issue of whether the computer controversy was resolved at the time the parties signed the settlement agreement.

The court therefore concludes that the settlement agreement precludes litigation of the computer controversy. Lubrizol's complaint, which alleges fraud based on the same computer controversy, reasserts the same cause of action pending at the time of settlement in the New Jersey suit. Thus, the final element of res judicata is satisfied and Exxon's motion for summary judgment should be granted.

Evans, Lower and Gates were not parties to the New Jersey suit. Yet, they also have moved for summary judgment under the res judicata theory, as well as a settlement and release defense.

The settlement and release defense fails. New York General Obligations Law, at Section 15-108, in effect allows Lubrizol to proceed against Gates, Evans and Lower in an attempt to recover for the same injury for which it recovered against Exxon but simply reduces the amount Lubrizol can recover by the amount it has already been paid.

Defendants Evans, Lower and Gates, however, also maintain res judicata bars Lubrizol's complaint.[4] As previously mentioned, mutuality of parties becomes the key issue. The question is one of privity; are Evans, Lower and Gates so closely aligned to Exxon that they are covered by the New Jersey settlement agreement and stipulation of dismissal?

The Court of Appeals for the Fifth Circuit has consistently focused on whether the party in the first case was a sufficient representative of the party to be bound in the second. *See, e.g., Aerojet-General Corp. v. Askew*, 511 F.2d 710, 719 (5th Cir. 1975). This inquiry is important because it is unfair to prevent a party from re-litigating an issue if the party in the first instance was not motivated or capable of representing the party-to-be-bound's interest. In other words, it is sometimes unfair for a court to allow offensive collateral estoppel against a new party.

In the case at hand, however, Evans, Lower and Gates seek to take advantage of the prior litigation. It is the plaintiff in the both cases that wants to re-litigate. It is thus inappropriate to focus on the adequacy of Exxon's representation of Evans, Lower and Gates' interests.

The critical issue is whether Evans, Lower and Gates are sufficiently closely related to Exxon so as to justify applying res judicata to bar Lubrizol's complaint against them. The court finds it persuasive that Evans and Lower

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[4]While Gates has contended throughout this litigation that it lacks capacity to be sued, in the alternative it seeks to take advantage of the res judicata defense and has joined in fully briefing this issue. *See* Defendants' Memorandum in support of Rule 12(b)(6) motion to dismiss, filed July 2, 1985, at 11 n. 5.

were Exxon employees at the time of the computer controversy, and that Exxon was a participant in the Gates Joint Venture. More importantly, however, is that Lubrizol's basis for recovery against Exxon, which arose during the pendency of the New Jersey suit, relies on the conduct of these additional defendants during the course of the New Jersey suit. This is confirmed by a review of Lubrizol's renewed motion for sanction, which was pending before the New Jersey court at the time the settlement and stipulation of dismissal was entered. The motion reveals that Lubrizol's allegations against Exxon were rooted exclusively in the conduct of these additional defendants. The statement of facts contained in the pleadings in the instant case affirms the court's conclusion that Lubrizol's contentions against Exxon were based on the conduct of Evans, Lower and Gates.

Thus, the court finds that res judicata bars Lubrizol from re-litigating the computer controversy against Evans, Lower and Gates and their motion for summary judgment should be granted. Lubrizol chose the forum to raise the computer controversy issue. Under the settlement agreement and stipulation of dismissal the issue was resolved. The additional defendants are sufficiently closely related to Exxon to be considered in privity with Exxon. *Cahill v. Arthur Andersen & Co.*, 659 F.Supp. 1175 (S.D. N.Y. 1986). *See also In re Teltronics Serv. Inc.*, 762 F.2d 185, 190-92 (2nd Cir. 1985); *Fiumara v. Fireman's Fund Insur. Co.*, 746 F.2d 87, 92 (1st Cir. 1984); *Morgan Consultants v. Am. Tel. & Te. Co.*, 546 F.Supp. 844, 847 n. 5 (S.D. N.Y. 1982). *Cf. Sports Factory v. Chanoff*, 586 F.Supp.342, 348 (E.D. Pa. 1984).

Since the court declared a mistrial, the parties have filed several motions. First, Lubrizol has moved for

dismissal of Defendants' counterclaims without prejudice. Lubrizol argues that the court should use its equitable powers to dismiss the counterclaims because the counterclaims were not filed until after the court initially denied Defendants' motions for summary judgment. Thus, Lubrizol asserts, if the court would have issued its present ruling in March of 1986 Lubrizol would never have had to face the counterclaim.

The court declines to dismiss Defendants' counterclaims for this reason. Several of the counterclaims, such as the Evans-Lower counterclaim for defamation and the Exxon counterclaim for breach of the settlement agreement could have been filed in this case any time after Lubrizol filed its complaint, and were not dependent on the court's ruling on Defendants' summary judgment motions. Additionally, defending against counterclaims is simply a possibility one must consider when one files a complaint. When Lubrizol filed this lawsuit it recognized, or should have recognized, the risk of losing at any stage of the proceedings and the risk of facing counterclaims at any stage of the litigation.

Next, Lubrizol has renewed its motions for summary judgment on all the counterclaims. First, Lubrizol seeks summary judgment on the Evans and Lower defamation counterclaim. The defamation counterclaim involves several statements and potentially the application of Texas, New Jersey and Ohio law. The court has re-examined the evidence and briefs and has concluded fact issues exist. First, while the law of judicial privileged in defamation is broad in Texas, it is much narrower in New Jersey. Under Section 6 of the Restatement, New Jersey law may apply to defamatory statements published in New Jersey. The briefing on whether Texas has a more significant

relationship to the alleged tort has created a conflict of laws issue. The briefing, however, has not been strong enough to convince the court which way to rule on the issue. Thus, the court will adhere to its earlier ruling and deny Plaintiff's motion for summary judgment on the defamation counterclaims.

Second, Lubrizol has asked the court to dismiss Exxon's counterclaim for breach of the New Jersey settlement agreement. Relying on this court's prior ruling that attorneys' fees are not recoverable under New York law for breach of contract, Lubrizol asserts that Exxon has failed to provide any evidence of damages. Exxon, likewise, has moved for reconsideration of the court's ruling that attorneys' fees are not recoverable. Exxon argues that there is an exception to the rule that attorneys' fees are not recoverable where a bad faith breach of covenant not to sue in a settlement agreement is asserted.

In *Artvale, Inc. v. Rugby Fabrics Corp.*, 363 F.2d 1002, 1007-1008 (2nd Cir. 1966), the court held that attorneys' fees were recoverable in an action for breach of a covenant not to sue in three situations. First, where the covenant is drafted to explicitly provide for recovery of litigation expenses. Second, attorneys' fees are recoverable where the breach is obvious. Last, such expenses are recoverable when the covenant is breached in bad faith.

The Court of Appeals for the Second Circuit restated the *Artvale* principles in *Bellefonte Re Ins. Co. v. Argonant Ins. Co.*, 757 F.2d 523, 529 (2d Cir. 1985). The New York state courts, however, have continued to hold that attorneys' fees are not recoverable for breach of contract. *See, e.g., Sullivan v. Getty Petroleum*, 516 N.Y.S.2d 281, 282

(A.D. 2 Dept. 1981); *A.G. Ship Maintenance Corp. v. Lezak*, 503 N.E.2d 681, 683, 69 N.Y.2d 15 (Ct. App. 1986); *Equitable Lumber Corp. v. IPA Land Dev. Corp.*, 344 N.E.2d 391, 394, 38 N.Y.2d 516 (Ct. App. 1976). The New York state courts have not, though, specifically addressed the recoverability of attorneys' fees for breach of a covenant not to sue, nor have they disapproved of *Artvale* or *Bellefonte*. *See Bellefonte Re Ins. Co. v. Argonant Ins. Co.*, 586 F.Suppl. 1286 (S.D. N.Y. 1984). Thus, this court believes the second circuit would hold that New York law provides that attorneys' fees are recoverable for breach of a covenant not to sue under the limited exceptions stated in *Artvale*. As the fifth circuit has stated, "once a panel of this Court has settled on the state law to be applied in a diversity case, the precedent should be followed by other panels . . . absent a subsequent state court decision or statutory amendment which makes this court's decision clearly wrong." *Lee v. Frozen Food Express, Inc.*, 592 F.2d 271, 272 (5th Cir. 1979), *cited in Chemetron Corp. v. Business Funds*, 682 F.2d 1149, 1172 (5th Cir. 1982).

Thus, the court concludes Lubrizol's motion to dismiss should be denied and Exxon's motion to reconsider should be granted. The settlement agreement does not contain explicit language enabling recovery of attorneys' fees for breach of the covenant not to sue. Exxon has, however, alleged that Lubrizol breached the settlement agreement's covenant not to sue in bad faith. *See, e.g.*, Joint Pretrial Order at 25. Exxon will therefore recover its litigation expenses, including attorneys' fees, if it proves a bad faith breach of the covenant not to sue.

Third, Lubrizol seeks dismissal of Exxon's fraud and misrepresentation counterclaim. In this counterclaim

Exxon maintains that Lubrizol "fraudulently induced Phillips and Exxon to think that the computer matter was resolved and finally settled, and that Lubrizol would not try to harm the reputation of Exxon's employees in the future for further economic advantage." Lubrizol argues that because the court is granting Exxon summary judgment on Lubrizol's complaint, this counterclaim is now moot.

Lubrizol's motion to dismiss this counterclaim should be denied. Lubrizol may have fraudulently induced Phillips and Exxon to believe the computer controversy was settled when Lubrizol did not intend to settle the computer controversy. The court is granting Exxon's motion for summary judgment because Lubrizol is bound by the clear language of the settlement agreement and stipulation of dismissal regardless of whether Lubrizol intended to settle the computer matter. Additionally, as Exxon points out, Exxon's counterclaim that Lubrizol induced Phillips and Exxon to believe Lubrizol would not try to harm Exxon's employees' reputation is unaffected. Moreover, there is no subject matter jurisdiction problem.

Last, Lubrizol moves to have Exxon's counterclaim for breach of the New Jersey protective order dismissed for lack of subject matter jurisdiction. As the court's previous discussion explains, a cause of action for breach of the New Jersey court's protective order must be brought in the New Jersey court. Thus, the court lacks subject matter jurisdiction over Exxon's counterclaim for breach of the protective order and it should be dismissed.

Finally, the court finds that several of its rulings may appropriate be appealed under F. R. Civ. Pro. 54(b). First, this lawsuit involves both multiple parties and

multiple claims. Moreover, because the court has dismissed Lubrizol's complaint for lack of subject matter jurisdiction and, alternatively, granted all the Defendants' motions for summary judgment, all Lubrizol's causes of action have been terminated.

Second, there is no just reason to delay an appeal. The court's dismissal of Lubrizol's complaint forces Lubrizol to defend against all counterclaims without itself retaining any right to recovery. Indeed, as the case now stands, the court's rulings strengthen Exxon's counterclaim for breach of the settlement agreement and fraud. If there is no appellate ruling and the court is wrong and Lubrizol is entitled to a trial on its complaint, the result will be two trials instead of one. Thus, the court will expressly direct that final judgment be enacted on Lubrizol's complaint in favor of all Defendants. Because the court's rulings also result in dismissal of Exxon's counterclaim for breach of the protective order, the court will also direct that final judgment be entered in favor of Lubrizol on that counterclaim.

Moreover, the court finds that its ruling denying Lubrizol's motion to dismiss Exxon's counterclaim for breach of the settlement agreement is critical to this litigation. The court has concluded that Exxon may recover attorneys' fees as damages for a bad faith breach of the settlement agreement. The record indicates that attorney's fees may be the only damages Exxon has sustained, and they are substantial damages. As the case stands, most of the trial would center on this counterclaim. If the court's ruling is reversed on appeal, most if not all of this counterclaim would be terminated. Thus, an immediate appeal from this ruling may materially advance of ultimate termination of the litigation. Additionally,

there is, no doubt, substantial ground for difference of opinion on this issue. Thus, the court concludes an interlocutory appeal on this issue under 28 U.S.C. 1292(b) is appropriate.

Trial of this case will take at least six weeks. While the court has often wondered how the costs of this case can be justified by the claims presented, this case unquestionably involves complex legal issues. Thus, the court strongly believes an immediate appeal on all the key issues would be most helpful in avoiding any further waste of money as well as judicial resources. Accordingly, the court

ORDERS

(1) Lubrizol's complaint is DISMISSED for lack of subject matter jurisdiction.

(2) Alternatively, Defendants Exxon, Evans, Lower and Gates' motions for summary judgment are GRANTED.

(3) Lubrizol's motion to dismiss and for summary judgment on Exxon's, Evans' and Lower's counterclaims is GRANTED in part and DENIED in part.

(4) Final judgment will be entered on Lubrizol's complaint and Exxon's counterclaim for breach of the protective order.

DONE in Houston, Texas, this 20th day of January, 1988.

/s/ James DeAnda
UNITED STATES DISTRICT JUDGE